



Jackson Energy Authority

Danny Wheeler  
Senior Vice President  
& Chief Financial Officer

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TN REGULATORY AUTHORITY  
TELECOMMUNICATIONS DIVISION

Mr. David Foster  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

RE. Docket No 03-00438  
Jackson Energy Authority

Dear Mr Foster,

Please find attached the Agreed Upon Procedures for the Jackson Energy Authority's Annual Audit to the Tennessee Regulatory Authority required by the above TRA Order

Work and Greer in Nashville, Tennessee will our independent Auditors for the Agreed Upon Procedures They plan to begin the audit process within the next two weeks

If you have any questions or need additional information, please call me at 731-422-7207.

Sincerely,

JACKSON ENERGY AUTHORITY

Dana R. Wheeler

/pdc

Attachment

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

## INTRODUCTION

The Tennessee Regulatory Authority ("TRA") approved Jackson Energy Authority's application for a Certificate of Public Convenience and Necessity on March 5, 2004. Unlike other utility-based carriers certified by the TRA, JEA is unique in that it operates as a carrier's carrier for wholesale telephone traffic only, not as a retail CLEC provider of telephone services like the Electric Power Board of Chattanooga. Additionally, JEA's Telecommunications Division is one of five wholly owned autonomous divisions of Jackson Energy Authority, unlike Memphis Network that is a partnership between Memphis Light, Gas, and Water and local investors.

At JEA, cable, Internet and telephone are separate business units within the JEA Telecommunications Division. Allocation numbers outlined in the Cost Allocation Manual submitted with JEA's application are used to delineate operating expenses for each unit and to prevent cross-subsidization from occurring between divisions. As mentioned, the JEA telephone business unit has no retail aspect. It is strictly wholesale, renting space on the JEA network from the cable business unit, then in turn, leasing that space to qualified Tennessee CLEC providers for transportation of the CLEC's traffic.

The JEA telephone business unit owns virtually no physical assets. The cable business unit owns the entire fiber distribution plant. Access fees received from CLEC's are used to pay the direct and allocated expenses of the telephone business unit. Revenues in excess of expenses are used to pay the cable business unit for the capacity leased for CLEC traffic.

Based upon the TRA Order, appropriate professional standards and discussions with JEA and the TRA, it has been agreed that the following procedures will be performed and an Agreed-Upon Procedures Report ("AUP") will be issued.

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**Client Assistance List**

The following information should be provided to the auditors at the beginning of on-site fieldwork. Copies should be provided for inclusion in workpapers unless otherwise noted. The period subject to the AUP is July 1, 2003 through June 30, 2004; therefore, information requested is for the year ended June 30, 2004.

Financial, organizational and contractual information:

- A. Financial statements for each JEA division and business unit
- B. Internal audit reports of JEA for the period of July 2003 through June 30, 2004 that relate to the Telephone business unit
- C. Audited financial statements for JEA for fiscal year 2004 with report of independent auditors
- D. Chart of accounts and trial balance for Telephone business unit of JEA
- E. Cost allocation manual pertaining to all divisions of JEA, including the Telephone business unit
- F. Operating Procedures between the Telephone business unit and the other divisions or business units of JEA
- G. All other written contracts and agreements, including loans, entered into between the Telephone business unit and the other divisions or business units of JEA; and a summary of any oral contracts or agreements between the Telephone business unit and the other divisions or business units of JEA
- H. Listing of employees of JEA
- I. Copy of the annual report filed with the TRA by JEA for the period July 2003 through June 30, 2004
- J. A calculation of the effective interest rate on each loan from the Electric Division to the Telecommunications Division

**COMPLIANCE REQUIREMENTS**

Compliance requirements are outlined in the following State laws and Authority orders:

- A. Tennessee Code Annotated §§ 7-52-401, 403, 404, 405, 406 and statutes referenced therein
- B. TRA's March 5, 2004 Order approving JEA's certificate of public convenience and necessity to provide telecommunications services as a carrier's carrier
- C. Private Acts of 2001, Chapter No. 55 of the General Assembly (Jackson Energy Authority's Charter)

FCC rules are as follows:

- A. Federal Communication Commission affiliate transaction rules, 47 Code of Federal Regulations § 32.27, and
- B. Federal Communication Commission cost allocation rules, 47 Code of Federal Regulations §§ 64.901 through 64.904

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**ENGAGEMENT PLAN**

I. Engagement period

The period subject to this work plan is July 2003 through June 30, 2004.

II Conditions of Engagement

A. The independent auditor selected is:

Wayne Fossett  
Work & Greer, PC  
206 Capitol Boulevard  
Nashville, TN 37219-1801  
Phone (615) 259-7600  
Fax (615) 259-7603  
Email: [wfossett@workgreer.com](mailto:wfossett@workgreer.com)

B Members of the audit team shall have sufficient understanding of the following.

- 1 Tennessee Code Annotated §§ 7-52-401, 403, 404, 405, 406 and statutes referenced therein;
- 2 Tennessee Regulatory Authority's March 5, 2004 Order approving JEA's certificate of public convenience and necessity to provide telecommunications services as a carrier's carrier
- 3 Private Acts of 2001, Chapter No. 55 of the General Assembly (Jackson Energy Authority's Charter)
- 4 Federal Communication Commission affiliate transaction rules, 47 Code of Federal Regulations § 32.27; and
- 5 Federal Communication Commission cost allocation rules, 47 Code of Federal Regulations §§ 64.901 through 64.904
6. JEA's cost allocation manual; and
- 7 Operating procedures between the Telecommunications Division and other divisions or business units of JEA

C. Independent auditors shall be independent as defined in the Statements on Standards for Attestation Engagements as set forth by the AICPA and in compliance with the GAO independence standards.

D. In addition, to the extent the independent auditor determines procedures included in this plan cannot be performed, the independent auditor will notify the Authority if the independent auditor determines it is necessary to modify the agreed upon procedures

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

- E The independent auditor may use the services of a specialist for assistance in highly technical areas. The independent auditor and the specified parties shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with JEA.
- F The independent auditor's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement.

III Representation Letters

- A JEA will provide a representation letter addressing the following compliance items:
  - 1 acknowledgment of management responsibility for complying with specified requirements,
  - 2 acknowledgment of management responsibility for establishing and maintaining an effective internal control structure over compliance;
  - 3 statement that management has performed an internal evaluation of its compliance with the specified requirements;
  - 4 statement that management has disclosed or will disclose to the auditor all known noncompliance occurring up to the date of the report,
  - 5 statement that management has made available all documentation related to compliance with the specified requirements,
  - 6 statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other auditors and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the auditor's report;
  - 7 statement that the Electric Division charged the Telecommunications Division the highest rate for pole attachments and underground installations as it charges third parties under comparable agreements required by Tennessee Code Annotated §7-52-405
  - 8 statement that funds loaned to the Telecommunications Division by the Electric Division were loaned at a rate of the greater of the highest interest earned by JEA on invested electric plant funds or the highest interest rate paid on JEA electric bonds
  - 9 statement that the other divisions or business units of JEA did not provide subsidies to the Telecommunications Division as required by Chapter 55 of the Private Acts of 2001 § 4(7),
  - 10 statement that JEA maintained records that comply with the Federal Communication Commission affiliate transaction rules, 47 Code of Federal Regulations § 32.27, and Federal Communications Commission cost allocation rules, 47 Code of Federal Regulations §§64.901 through 64.904.

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

B The Chief Financial Officer or the equivalent of JEA will provide a representation letter that includes the following:

- 1 statement that the Telephone business unit maintains separate books, records, and accounts from those of the other divisions and business units of JEA and that such separate books, records, and accounts are maintained in accordance with Generally Accepted Accounting Principles ("GAAP");
- 2 statement that the Telephone business unit has not obtained credit under any arrangement that would permit the creditor, upon default, to have recourse against the assets of the other divisions and business units of JEA (and vice versa),
- 3 statement that management has identified to the auditor all assets transferred or sold since the last audit, and services rendered by the other divisions and business units of JEA to the Telephone business unit (and vice versa), and that these transactions have been accounted for in the required manner;
4. statement that management has not changed any of JEA's processes or procedures as they relate to transactions with the Telephone business unit (unless the independent auditors have been apprised of the changes), and that these procedures and processes have continued to be implemented on a consistent basis since the execution of these agreed-upon procedures through the date of the report,
- 5 statement summarizing material events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document

IV. Engagement Process

The work plan will be presented to the TRA representatives for review. The representatives will meet to discuss the overall plan and will agree upon the procedures to be performed.

V Report Structure

The auditor shall present the results of performing the procedures in the form of an agreed upon procedures report consistent with AICPA standards.

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**OBJECTIVE AND PROCEDURES**

**OBJECTIVE I.** Pursuant to Tennessee Code Annotated § 7-52-405, determine whether the Electric Division has charged an amount for pole attachments and underground installations to the Telecommunications Division equal to the highest rate charged by JEA to any other person or entity for comparable attachments.

**PROCEDURES**

1. Obtain a listing of all pole attachment and underground installations agreements/contracts (including the billing rates) that JEA has in place with other persons or entities. Review all contracts and agree the terms of the contract (rate charged for pole attachments, underground installations, and conduit rental, term, customer) to the summary listing.
2. Based on the listing of pole attachments and underground installations agreements provided by JEA, determine the highest rate for pole attachments and underground installations. Select all agreements with the Telecommunications Division for pole attachments and underground installations and compare the rates charged to the highest rate for pole attachments and underground installations that JEA charges comparable persons or entities. The sample is to be chosen on a random basis.
3. Agree the amount charged to the Telecommunications Division by the Electric Division to the Electric Division's general ledger.

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**OBJECTIVE II.** Pursuant to Chapter 55 of the Private Acts of 2001 §4(7), determine whether the interest cost for funds lent to the Telecommunications Division by the Electric Division to acquire, construct, and provide working capital for the system, plant and equipment is allocated at the greater of the highest rate earned by the Electric Division on invested electric plant funds or the highest rate of interest paid on the Electric Division's bonds.

**PROCEDURES**

- 1 Obtain copies of all loan agreements between the Electric Division and the Telecommunications Division between July 2003 and June 2004
- 2 Compare the loan interest expense/income and accrued interest amounts recorded in the Electric Division general ledger to the Telecommunications Division general ledger
- 3 Obtain a calculation of the effective interest rate on each loan made by the Electric Division to the Telecommunications Division
- 4 Obtain from JEA a calculation of the rate JEA earned on invested electric division plant funds during the loan period
- 5 Compare rates of interest for loans to the Telecommunications Division with rates earned by JEA on its invested electric division plant funds
- 6 Compare rates of interest for loans to the Telecommunications Division with rates paid by the Electric Division on its bonds
- 7 Determine that documentation supports the interest rates noted in previous steps



**WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004**

**Objective III.** JEA will develop a rate for leased plant that will fully recover the depreciation, maintenance, and other loaded costs of the asset used. Determine whether JEA has leased office space on a per-square-foot basis.

**PROCEDURES**

- 1 Obtain copy of rental agreement between Telecommunications and the other divisions of JEA from July 2003 and June 2004.
2. Obtain copy of procedure, along with supporting documentation, for determining the square footage rate
- 3 Obtain detailed calculations used in determining the amount of revenue/expense allocated to each division Test the clerical accuracy of the calculations.
5. Agree monthly amounts accrued to general ledger accounts of each Division

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**OBJECTIVE IV.** Determine whether costs of JEA have been properly allocated to its Telephone business unit.

**PROCEDURES**

1. Obtain a copy of the annual report filed with the TRA by JEA for the period July 2003 through June 2004
2. Obtain a list of JEA costs allocated to the Telephone business unit and agree allocated amounts to the general ledger for the Telephone business unit.
3. For each identified allocated cost, compare the amount of costs allocated to the Telephone business unit with the amount stated in the annual report filed with the TRA
4. For each significant allocated cost, obtain from JEA a summary of transactions that make up the costs allocated to the Telephone business unit. Randomly select a representative sample of transactions for review
5. For each selected transaction, determine whether the calculation for allocating costs is in accordance with JEA's cost allocation manual.
6. Agree amounts used in the cost allocation to JEA's general ledger or other documentation from the accounting records of JEA

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**OBJECTIVE V. Determine whether the amounts billed by the other business units of JEA to the Telephone business unit for tariffed or non-tariffed services are appropriate.**

**PROCEDURES**

- 1 Inquire of management as to whether or not any amounts were billed by the other business units of JEA to the Telephone business unit. If such billings exist, perform the following procedures:
  - a Obtain from JEA a summary of all non-tariffed services performed for the Telephone business unit
  - b Obtain from JEA all invoices/contracts, including underlying calculations, for all non-tariffed services billed by JEA to the Telephone business unit from July 1, 2003 through June 30, 2004
  - c Agree amounts for all non-tariffed services per the general ledger to the amounts stated in the annual report by JEA with the TRA
  - d For a representative sample of all charges for non-tariffed services, perform the following:
    - (1) Agree the invoiced amounts to calculations/workpapers prepared by JEA to support the invoice
    - (2) Recalculate the amounts provided by JEA
  - e Obtain copies of all monthly bills rendered to the Telephone business unit by other business units of JEA for electric, gas, water and wastewater services from July 2003 through June 2004
  - f Obtain the tariff rate schedule(s) applicable to the Telephone business unit. Recalculate the invoiced amounts
  - g Determine if the tariff rates applied to the Telephone business unit are appropriate considering volume and other tariff factors.
  - h Agree monthly amounts billed to the general ledger accounts of the Telephone business unit

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**OBJECTIVE VI. Determine whether any revenues of JEA have been allocated to its Telephone business unit and, if so, determine the reasonableness of the allocation.**

**PROCEDURES**

- 1 Obtain from JEA the approach and rationale used in determining the method for allocating revenues to the Telephone business unit.
- 2 Obtain the detailed calculations used in determining the amounts of these revenues allocated to the Telephone business unit Test the clerical accuracy of the calculations

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**OBJECTIVE VII. Determine whether the Telephone business unit has reported and paid taxes as required by the cost allocation manual.**

**PROCEDURES**

- 1 Obtain from JEA a schedule of all tax payments made by the Telephone business unit, including workpapers supporting the calculations
- 2 Review the supporting workpapers for reasonableness and compliance with regulations.
- 3 Trace the payments into the Telephone business unit general ledger and verify payments

WORK PLAN  
JEA - TRA  
JULY 2003 - JUNE 2004

**OBJECTIVE VIII.** Determine whether there have been any significant changes in processes and procedures applicable to cost allocations by JEA to the Telephone business unit during and subsequent to the engagement period.

**PROCEDURES**

- 1 Inquire of management whether processes and procedures in place during the engagement period for ensuring compliance with statutory and Authority requirements have changed subsequent to the engagement period